

221.2

PUBLIC TRANSIT OPERATORS'

PENSION PLANS

MAY 1974

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May 30, 1974

The Honorable President of the Senate
The Honorable Speaker of the Assembly
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members:

Transmitted herewith is the Auditor General's report pertaining to pension plans for employees of 27 public transit operators in California.

Inadequate cash funds have been set aside to provide for payment of future pension benefits of seven public transit operators' employees who are not covered by public retirement systems.

These seven operators are Alameda-Contra Costa Transit District, Long Beach Public Transportation Company, Sacramento Regional Transit District, San Diego Transit Corporation, Santa Clara County Transit District, Southern California Rapid Transit District and Stockton Metropolitan Transportation District. These seven operators are the only public transit operators in the state whose employees are not covered by a public retirement system. Based on their most recent actuarial studies, the total pension plan deficit for five of these operators is \$86,832,000. The deficits for the Long Beach and Santa Clara operators are unknown.

Because these seven transit operators have not set aside sufficient funds to provide for their employees' future pension benefits as they are earned, future transit users as well as taxpayers will be required to pay these costs. The Auditor General has estimated that the failure to set aside and invest funds for future pension benefits will increase actual costs by more than \$43 million for the five operators which have estimated their pension deficit. This cost increase results from a loss of earnings on the invested funds.

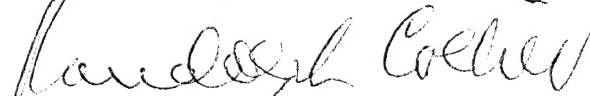
The Honorable Members of the Legislature
of California
May 30, 1974
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The Auditor General has recommended that legislation be enacted to require that public transit operators, whose employees are not covered by a public retirement system, (1) conduct periodic actuarial studies of their employees' pension plans to determine the annual cost of future pension benefits, (2) adopt financial plans to eliminate over a reasonable future period any pension deficits accrued in prior years, and (3) set aside and invest on a current basis, cash funds sufficient to provide for the payment of future pension benefits.

The financial statements of the seven public transit operators whose employees are not covered by public retirement systems, have understated the actuarially determined deficits in their employees' pension plans by more than \$40 million.

To assure the taxpayers, creditors and employees of public transit operators that the employee pension plans are financially sound, the Auditor General has recommended that legislation be enacted to require that public transit operators report in their financial statements, at least annually, (1) the actuarially determined amount of pension liability, (2) the amount of cash funds set aside and invested to meet the pension liability, (3) the resulting pension deficit, if any, and (4) the financial plan adopted to eliminate the pension deficit.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Randolph Collier".

RANDOLPH COLLIER, Vice-Chairman
Joint Legislative Audit Committee

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SUMMARY OF FINDINGS AND RECOMMENDATIONS

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FINDING

INADEQUATE CASH FUNDS HAVE BEEN SET ASIDE TO PROVIDE FOR PAYMENT OF FUTURE PENSION BENEFITS OF SEVEN PUBLIC TRANSIT OPERATORS' EMPLOYEES WHO ARE NOT COVERED BY PUBLIC RETIREMENT SYSTEMS

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RECOMMENDATION

We recommend that legislation be enacted to require that public transit operators whose employees are not covered by a public retirement system (1) conduct periodic actuarial studies of their employees' pension plans to determine the annual cost of future pension benefits, (2) adopt financial plans to eliminate, over a reasonable future period, any pension deficits accrued in prior years, and (3) set aside and invest on a current basis cash funds sufficient to provide for the payment of future pension benefits.

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FINDING

FINANCIAL STATEMENTS OF SEVEN PUBLIC TRANSIT OPERATORS HAVE UNDERSTATED THE ACTUARIALLY DETERMINED DEFICITS OF EMPLOYEES' PENSION PLANS BY MORE THAN \$40 MILLION

7

RECOMMENDATION

We recommend that legislation be enacted to require that public transit operators report on their financial statements, at least annually, (1) the actuarially determined amount of pension liability, (2) the amount of cash funds set aside and invested to meet the pension liability, (3) the resulting pension deficit, if any, and (4) the financial plan adopted to eliminate the pension deficit.

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INTRODUCTION

In response to a legislative request, we have reviewed the adequacy of the provisions being made to pay benefits under the various pension plans for employees of 27 public transit operators in the state.

Public transit employees include administrative and clerical personnel, bus drivers and maintenance employees.

Our review was limited to an examination of financial statements, actuarial reports and related materials, without verification of supporting data.

Most transit operators provide for employee retirement either by contract with the State's Public Employees' Retirement System (PERS) or by a separate local government pension plan. However, seven of the largest operators, which collectively employ approximately 64 percent of the total number of transit employees, provide benefits by separate plans rather than public retirement systems.

These seven operators are: Alameda-Contra Costa Transit District, Long Beach Public Transportation Company, Sacramento Regional Transit District, San Diego Transit Corporation, Santa Clara County Transit District, Southern California Rapid Transit District, and Stockton Metropolitan Transit District.

We have previously reported on the financing of the employee pension plan of the San Diego Transit Corporation (No. 221.1, dated April 1974).

FINDINGS

INADEQUATE CASH FUNDS HAVE BEEN SET ASIDE
TO PROVIDE FOR PAYMENT OF FUTURE PENSION
BENEFITS OF SEVEN PUBLIC TRANSIT OPERATORS'
EMPLOYEES WHO ARE NOT COVERED BY PUBLIC
RETIREMENT SYSTEMS

Seven public transit operators, with 64 percent of all public transit employees in the state, have not set aside adequate cash funds to provide for the future pension benefits of their employees. These seven operators are the only public transit operators in the state whose employees are not covered by a public retirement system, such as the statewide Public Employees' Retirement System (PERS) or a local public employees' plan.

The accrued pension liabilities for which adequate funds have not been set aside (deficits) for five of these operators range from \$209,000 to \$46,826,000, and total \$86,832,000 for all five. The other two operators have not conducted an actuarial study and do not know the extent of their potential pension liability.

Two of the seven operators, Sacramento Regional Transit District and Southern California Rapid Transit District, have established financial plans to eliminate the deficits in their pension plans over a reasonable specified period and are setting aside funds for this purpose. However, the other five operators have established no such financial plans to eliminate any pension deficits accrued in prior years.

The latter five operators merely pay amounts due each year to retired employees for their current actual benefits. No cash funds are set aside to pay for the future pension benefits being earned by present employees or to eliminate the deficits built up in prior years. Thus, the pension deficit for these five operators increases each year.

Details for these seven transit operators are shown in the Appendix, Table 1.

We also examined the pension plans of 20 other transit system operators in the state. Employees of 17 of these operators are covered by PERS, and those of three operators are covered by pension plans which include other local government employees. Nine of these 20 operators have no pension deficit, according to the most recent actuarial study of their plan. The other 11 operators have estimated deficits ranging from \$2,000 to \$429,000. Each of these 11 operators with a pension deficit is paying, in addition to the pension costs related to their employees' current service, an amount which will eliminate the deficit over a period required by the retirement system.

Details for these 20 transit operators are shown in the Appendix, Table 2.

Because the seven transit operators, whose employees are not covered by a public retirement system, have not set aside sufficient funds to provide for their employees' future pension benefits as they are earned, future transit users and taxpayers will be required to pay these costs.

Furthermore, the actual cost which will have to be paid in the future for pension benefits will be increased because of the earnings which could have been realized if the cash funds had been set aside and invested. Based on PERS data, we estimate that the failure to set aside and invest funds for future pension benefits will increase the actual costs by 50 percent. This increase would total more than \$43 million for the five operators which have estimated their pension liabilities.

The magnitude of the pension deficits of these public transit operators not under a public retirement system, and their failure to set aside sufficient funds to meet these pension liabilities, raises serious question as to the financial ability of the operators to meet their obligations in the future. Such a situation also jeopardizes the pension benefits of the transit operators' employees.

The setting aside and investing of funds by public transit operators, in amounts actuarially determined to be necessary to meet future pension liabilities as they are earned, would minimize the future cost to the operators' users and taxpayers, and would protect the pension benefits earned by their employees.

RECOMMENDATION

We recommend that legislation be enacted to require that public transit operators whose employees are not covered by a public retirement system (1) conduct periodic actuarial studies of their employees' pension plans to determine the annual cost of future pension benefits, (2) adopt financial plans to eliminate, over a reasonable future period, any pension deficits accrued in prior years, and (3) set aside and invest on a current basis cash funds sufficient to provide for the payment of future pension benefits.

FINANCIAL STATEMENTS OF SEVEN PUBLIC
TRANSIT OPERATORS HAVE UNDERSTATED THE
ACTUARIALLY DETERMINED DEFICITS OF
EMPLOYEES' PENSION PLANS BY MORE THAN
\$40 MILLION

The financial statements of the seven public transit operators we reviewed, whose employees are not covered by public retirement systems, have understated the actuarially determined deficits in their employees' pension plans. This is illustrated by the following table:

<u>Operator</u>	<u>Pension Plan Deficit* Based On Most Recent Actuarial Study</u>	<u>Pension Plan Deficit* Based On Most Recent Financial Statement</u>	<u>Understatement Of Pension Plan Deficit*</u>
Alameda-Contra Costa Transit District	\$24,398,000	\$ 3,408,000	\$20,990,000
Long Beach Public Transportation Company	no study	not mentioned	not determined
Sacramento Regional Transit District	2,969,000	amount not** shown	2,969,000
San Diego Transit Corporation	12,430,000	8,689,000	3,741,000
Santa Clara County Transit District	no study	not mentioned	not determined
Southern California Rapid Transit District	46,826,000	34,000,000	12,826,000
Stockton Metropolitan Transit District	<u>209,000</u>	<u>100,000</u>	<u>109,000</u>
Totals	<u>\$86,832,000</u>	<u>\$46,197,000</u>	<u>\$40,635,000</u>

*The pension plan deficit equals the excess of the actuarially determined pension plan liability over the amount of cash funds set aside and invested to meet this liability.

**A footnote was included stating, "The materiality of the understatement of the pension cost liability ... is not readily determinable."

Generally accepted accounting principles permit alternative methods of accounting and reporting for employee pension plans. Use of such alternative methods by public transit operators can result in significant variations in reported pension expenses and liabilities.

Also, different actuarial studies may result in different conclusions because various methods of computing benefits and costs are acceptable, and because assumptions must be made regarding future events, such as labor turnover rates and average investment earning rates.

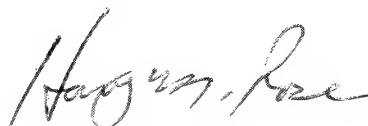
To assure that sufficient amounts are being contributed to provide for the benefits earned, periodic actuarial reevaluations of the pension plans are required, and financial plans must be adopted to eliminate any pension deficits.

The different methods of accounting and reporting the status of pension plans by the seven public transit operators having their own pension plans are described in the Appendix, Exhibits 1 through 7.

To assure the taxpayers, creditors and employees of public transit operators that the employee pension plans are financially sound, full disclosure of pension plan deficits must be made in the operators' financial statements. This full disclosure must include (1) the actuarially determined pension liability, (2) the amount of cash funds set aside and invested to meet this liability, (3) the resulting pension deficit, if any, and (4) the financial plan adopted to eliminate the deficit.

RECOMMENDATION

We recommend that legislation be enacted to require that public transit operators report on their financial statements, at least annually, (1) the actuarially determined amount of pension liability, (2) the amount of cash funds set aside and invested to meet the pension liability, (3) the resulting pension deficit, if any, and (4) the financial plan adopted to eliminate the pension deficit.



Harvey M. Rose
Auditor General

May 23, 1974

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A P P E N D I X

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

The Alameda-Contra Costa Transit District was created by statute in 1955. No cash funds are being set aside to pay pension costs and the resulting pension deficit is substantially understated in the district's financial statements.

The pension plan liability determined by the most current actuarial study was \$24,398,000 as of August 31, 1972. This amount is not shown in the district's financial statements. Rather, the district follows the practice of reporting a liability in the amount of the excess of charges to operations for pension expense over the amount paid to retirees. The liability reported in the June 30, 1973 financial statements was \$1.5 million. The district's auditor took exception to this reporting on the basis that during fiscal years 1971-72 and 1972-73 the total amount charged to expense was \$1.9 million less than that determined by the actuarial study. To be in compliance with generally accepted accounting principles, the district would merely have to increase its liability from \$1.5 million to \$3.4 million.

The district retains a substantial balance of liquid assets. At June 30, 1973, the cash and federal securities totaled \$11.4 million, or 47 percent of total assets. These assets are not restricted. As a consequence, they may be used to liquidate any liability or claim against the district including pension payments.

LONG BEACH PUBLIC TRANSPORTATION COMPANY

Long Beach Public Transportation Company is a nonprofit corporation wholly-owned by the City of Long Beach. It was established in 1963 with the purchase of the assets and operations of the private operator, Long Beach Motor Bus Company.

Two separate pension plans are provided. Administrative and clerical employees are covered under the Long Beach Public Transportation Company Salaried Employees Retirement Plan, and union employees are covered under pension provisions specified in the labor agreement.

The plan covering administrative and clerical employees is funded with the Union Bank as trustee. In contrast, there are no funds being set aside for pension benefits for drivers and maintenance employees. An actuarial study has not been made and no liability is shown in the financial statements. However, the most recent audit report by the city auditor states that the balance sheet and income statement of the company presents fairly its financial position and the results of operations.

SACRAMENTO REGIONAL TRANSIT DISTRICT

The Sacramento Regional Transit District was created by legislation in 1971. The district has two pension plans, one for union employees and the other for administrative and clerical workers.

UNION EMPLOYEES

The district is making monthly cash payments to the union employees' pension fund in accordance with their actuary's recommendations. Wells Fargo Bank is the trustee of the fund. At January 1, 1974, cash and investments in the fund amounted to \$804,000. The actuarially-computed pension liability at that time was \$3,445,700. If the district continues to make payments in accordance with their actuary's recommended plan, as they are presently doing, the deficit should be eliminated in approximately 35 years.

ADMINISTRATIVE AND CLERICAL

The district is also making cash contributions to the administrative and clerical employees' pension plan on an actuarially sound basis. The trustee for this plan is the Mutual of New York Life Insurance Company. As of January 1, 1974, assets in this fund amounted to \$231,000 and the actuarially-computed liability was \$558,000. Mutual of New York advises that if the district continues its current funding rate, the deficit should be eliminated in approximately 20 years.

SAN DIEGO TRANSIT CORPORATION

The San Diego Transit Corporation was created in 1967 as a wholly-owned corporation of the City of San Diego to continue the transit operation of the prior private operator, San Diego Transit System.

No cash funds have been set aside for pension benefits by the corporation. The actuarially-computed pension liability was \$12,679,000 as of April 1, 1973, the time of the most current evaluation. At that time there was a reported \$250,000 in assets reserved for pension payments. This asset reserve was established at the time the transit operation was assumed from the former operator. The agreement transferring the operation required the payment of \$650,000 by the former operator to the new corporation for future pension payments, which were earned by employees prior to the transfer. Since that time, benefit payments have reduced the reserve to \$180,484 as of June 30, 1973.

The June 30, 1973 financial statements reflect a pension deficit of only \$8,689,212, which is the present value of the vested benefits. The assets include an amount of \$4,553,727 identified as "Deferred pension vested benefits". This amount, which is almost one-third of the total assets, has no value and represents only that part of the above \$8.6 million recorded liability not yet charged to operations.

SANTA CLARA COUNTY TRANSIT DISTRICT

The Santa Clara County Transit District was created by legislation in 1969. The pension plan for the union employees became effective January 1, 1973.

An actuarial evaluation has not been made and no cash funds have been set aside for pension benefits, although the pension plan document requires that funds be set aside to finance pension benefits on a sound actuarial basis.

The administrative and clerical activities of the district are provided by Santa Clara County employees, who are covered under PERS.

SOUTHERN CALIFORNIA RAPID TRANSIT DISTRICT

The Southern California Rapid Transit District was created by legislation in 1964. The district has three noncontributory pension plans covering each labor group represented by a separate union, and a contributory plan covering administrative employees.

The district makes monthly payments to the Bank of America as trustee of the four plans. The unfunded portion of the pension liability is being reduced according to the actuarial consultant's recommendation. If payments continue according to the recommendation, the plan will be fully funded in 28 years.

The present pension deficit is approximately \$47 million.

STOCKTON METROPOLITAN TRANSIT DISTRICT

The Stockton Metropolitan Transit District was created by 1963 legislation, and acquired the facilities and assumed the operations of the Stockton City Lines in June 1965.

The \$17,000 obtained from the prior private operator to pay pension benefits earned prior to the beginning of the district's operations has remained invested. However, no additional funds have been set aside for the pension benefits earned since June 1965.

An actuarial study was prepared in 1973. However, the accounting records and reports do not reflect the results of this study. Instead, they are based on a 1970 arbitration award which established the pension plan. The district's reason for this omission is that the plan has not been officially adopted because provisions thereof are the subject of litigation.

Since the 1970 award, the only pension costs accounted for have been the payments made to retirees.

SUMMARY OF PENSION DEFICITS OF SEVEN
PUBLIC TRANSIT OPERATORS WHOSE EMPLOYEES
ARE NOT COVERED BY PUBLIC RETIREMENT SYSTEMS

<u>Operator</u>	<u>Number Of Employees</u>	<u>Actuarially Determined Pension Liability</u>	<u>Cash Funds Set Aside And Invested For Pension Benefits</u>	<u>Pension Plan Deficit Total</u>	<u>Per Employee</u>
Alameda-Contra Costa Transit District	1,636	\$ 24,398,000	0	\$ 24,398,000	\$14,913
Long Beach Public Transportation Company	234	(unknown)	*	(unknown)	(unknown)
Sacramento Regional Transit District	332	4,004,000	\$1,035,000	2,969,000	8,943
San Diego Transit Corporation	570	12,679,000	249,000	12,430,000	21,807
Santa Clara County Transit District	163	(unknown)	0	(unknown)	(unknown)
Southern California Rapid Transit District	4,501	74,175,000	27,349,000	46,826,000	10,403
Stockton Metropolitan Transit District	<u>68</u>	<u>226,000</u>	<u>17,000</u>	<u>209,000</u>	3,074
Total	7,504	\$115,482,000	\$28,650,000	\$86,832,000	
Less Employees for Operators Whose Deficit Is Unknown	<u>397</u>	<u>(unknown)</u>	<u>-</u>	<u>(unknown)</u>	(unknown)
Total	<u>7,107</u>	<u>\$115,482,000</u>	<u>\$28,650,000</u>	<u>\$86,832,000</u>	12,218

*Assets have been set aside for the administrative and clerical employees' pension plan but not for the drivers and maintenance employees plan.

SUMMARY OF PENSION DEFICITS OF TWENTY
PUBLIC TRANSIT OPERATORS WHOSE EMPLOYEES
ARE COVERED BY PUBLIC RETIREMENT SYSTEMS

<u>Operator</u>	<u>Number Of Employees</u>	<u>Estimated Pension Plan Deficit Based On Most Recent Actuarial Study*</u>	<u>Estimated Pension Plan Deficit Per Employee</u>
Public Employees Retirement System:			
Bay Area Rapid Transit District	1,326	-	-
Bell Gardens Municipal Bus	3	-	-
California City Transit	2	-	-
City of Commerce Bus Lines	13	-	-
Culver City Municipal Bus Lines	24	\$ 9,000	\$ 375
Gardena Municipal Bus Lines	42	3,000	71
Golden Empire Transit District	30	-	-
Golden Gate Bridge, Highway and Transportation District	353	17,000	48
Laguna Beach Municipal Transit District	8	-	-
Montebello Municipal Bus Lines	48	14,000	292
Oceanside Transportation System	39	68,000	1,744
Redwood City	13	2,000	154
San Bernardino Municipal Transit System	61	27,000	443
Santa Barbara Metropolitan Transit District	30	102,000	3,400
Santa Monica Municipal Bus Lines	169	22,000	130
South Coast Area Transit (Ventura)	35	-	-
Torrance Transit System	25	4,000	160
Local Government Retirement Funds:			
Fresno Municipal Lines	86	-	-
Orange County Transit District	151	-	-
San Francisco Municipal Railway	<u>1,800</u>	<u>429,000</u>	238
Total	<u>4,258</u>	<u>\$697,000</u>	164

*The Public Employees Retirement System, and the City and County of San Francisco do not segregate the transit employees from other employees in actuarial studies of contracting local agencies. Therefore, the estimated deficits shown are the proration of the contracting local governments' total deficits to the covered transit employees.